

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Chairman;
Michael Kubayanda, Vice Chairman;
Mark Acton;
Ann C. Fisher; and
Ashley E. Poling

Complaint of the Greeting
Card Association

Docket No. C2020-2

ORDER GRANTING THE POSTAL SERVICE'S MOTION
TO DISMISS COMPLAINT WITH PREJUDICE

(Issued April 28, 2020)

I. INTRODUCTION

On January 30, 2020, the Greeting Card Association (GCA) filed the instant complaint, alleging that the Postal Service's rates for Single-Piece First-Class Stamped and Metered Letter mail¹ illegally price discriminate against household mailers and in favor of business mailers, in violation of 39 U.S.C. § 403(c), and fail to achieve several of the objectives for the postal regulatory system, set out in 39 U.S.C. § 3622(b).²

¹ For brevity, the Commission will periodically refer to these rate categories as "metered letter rate" and "stamped letter rate" in this Order.

² Complaint of the Greeting Card Association, January 30, 2020 (Complaint).

First, GCA argues that the Single-Piece First-Class stamped and metered letter rates are illegally discriminatory because most household mailers cannot practically access the more favorable, metered letter rate that some businesses can utilize. Complaint at 13-17. GCA contends, *inter alia*, that the 5-cent differential between these rates violates § 403(c) because it is not justified by differences in the Postal Service's costs for stamped and metered letters. As explained below, the Postal Service's rates are not legally required to be directly justified by differences in costs, outside of the context of workshare discounts. The Commission has consistently declined to determine that the metered letter rate is a workshare discount.³ Instead, the question is whether the Postal Service's rates constitute "undue or unreasonable" price discrimination, the standard set out in § 403(c).

GCA also argues that the metered letter rate is not in accordance with § 3622's objectives for the postal regulatory system, citing §§ 3622(b)(1), (4), (5), and (8). Complaint at 27-31. Primarily, GCA contends that the metered letter rate unnecessarily forgoes revenue by offering a lower rate than the Postal Service could otherwise collect and, therefore, fails to secure the adequate revenues necessary to maintain financial stability under 39 U.S.C. § 3622(b)(5).

In this Order, the Commission reviews the Complaint and must determine whether a proceeding is necessary (if there is a material issue of fact or law) or dismiss it (if there is not). For the reasons explained below, the Commission dismisses the Complaint with prejudice.

II. BACKGROUND

The metered letter rate category consists of Single-Piece First-Class Letters with postage affixed by meter, information-based indicia, permit imprint or pre-cancelled stamps. Order No. 1890 at 46. The Postal Service first proposed a separate metered

³ See, e.g., Docket No. R2013-10, Order on Price Adjustments for Market Dominant Products and Related Mail Classification Changes, November 21, 2013 (Order No. 1890).

letter rate in Docket No. R2013-10.⁴ Prior to that docket, the stamped and metered letter rates were equivalent.

In Docket No. R2013-10, the Postal Service cited several potential advantages for the metered letter rate, including more consistent use of the postal system by small businesses, customer convenience, and lower production and distribution costs for stamps. R2013-10 Notice at 20. GCA and other commenters objected to the proposed metered letter rate, alleging that it was not just and reasonable, pursuant to 39 U.S.C. § 3622(b)(8), that it constituted an impermissible workshare discount, and on other grounds. Order No. 1890 at 47-49. At that time, the Commission had already determined that metered mail (and therefore the metered letter rate) was the appropriate benchmark for calculating the costs avoided by presort First-Class Mail for workshare purposes.⁵

In Order No. 1890, the Commission approved a metered letter rate that was one-cent lower than the stamped letter rate, noting the Postal Service's proposed advantages for the metered letter rate. Order No. 1890 at 51. The Commission found that a workshare relationship had not been established and deferred its review under the objectives and factors of 39 U.S.C. § 3622 until the FY 2014 Annual Compliance Determination (ACD). *Id.*

In the FY 2014 ACD, GCA and other commenters again objected to the metered letter rate, arguing that it violated the objectives and factors of § 3622 and constituted illegal price discrimination under § 403(c).⁶ The Commission applied § 403(c)'s "undue or unreasonable" standard and determined that the metered letter rate was based on "a rational explanation...that supported pricing Stamped and Metered Letters differently"

⁴ Docket No. R2013-10, United States Postal Service Notice of Market-Dominant Price Adjustment, September 26, 2013, at 20-21 (R2013-10 Notice).

⁵ Docket No. RM2010-13, Order Resolving Technical Issues Concerning the Calculation of Workshare Discounts, April 20, 2012, at 11 (Order No. 1320).

⁶ Docket No. ACR2014, Initial Comments of American Postal Workers Union, AFL-CIO, February 2, 2015, at 8-11, Initial Comments of the Greeting Card Association, February 2, 2015, at 2-3.

and concluded that “[t]he same reasons justify its continuation.”⁷ The Commission also reiterated that it had not determined that a workshare relationship exists between metered and stamped letters. FY 2014 ACD at 68.

Subsequently, the Postal Service has expanded the differential between the metered and stamped letter rates, first to three and then to 5 cents.⁸ In each case, the Commission accepted the Postal Service’s justifications and approved the proposed metered and stamped letter rates. See Order No. 3610; Order No. 5285.

III. COMISSION ANALYSIS

In this section, the Commission explains why it must reject GCA’s § 3622 claims under its precedent, why the metered letter rate does not need to be justified by differences in the Postal Service’s costs, and why GCA’s § 403(c) claim does not establish illegal price discrimination. The bulk of the Commission’s analysis will focus on the gravamen of the Complaint: its claim that the metered rate constitutes illegal price discrimination under § 403(c). However, GCA also restates several of its past arguments from other dockets, arguing that the metered letter rate is not in accordance with the objectives for the system for regulating rates and classes for market dominant products, found in §§ 3622(b)(1), (4), (5), and (8). As the Commission will explain below, neither GCA’s claims pursuant to § 403 nor its arguments under § 3622 can be sustained.

GCA’s principal § 3622 argument is that the metered letter rate is an “unnecessary sacrifice of revenue” that “prima facie contravenes” the Postal Service’s efforts to secure the adequate revenues necessary to maintain financial stability, as required under 39 U.S.C. § 3622(b)(5). Complaint at 27-30. GCA also contends that

⁷ Docket No. ACR2014, Annual Compliance Determination Report, Fiscal Year 2014, March 27, 2015, at 68 (FY 2014 ACD).

⁸ See Docket No. R2017-1, Order on Price Adjustments for First-Class Mail, Standard Mail, Periodicals, and Package Services Products and Related Mail Classification Changes, November 15, 2016 (Order No. 3610); Docket No. R2019-1, Order Approving Price Adjustments for First-Class Mail, October 24, 2019 (Order No. 5285).

the metered letter rate “has not increased cost savings” in a way that would increase efficiency and achieve § 3622 (b)(1), that the rate runs afoul of § 3622(b)(4) (despite Commission precedent that it does not) because the rate is otherwise illegal under GCA’s § 403(c) claim, and that it violates 39 U.S.C. § 3622(b)(8)’s directive to establish a “just and reasonable schedule for rates and classifications.” *Id.* at 30-31. These arguments are intermixed with GCA’s § 403(c) claim and, in some cases, appear to rely on the success of that claim.⁹

The Commission has evaluated and rejected each of these arguments in past proceedings. In its initial protest of the metered letter rate, GCA argued that the rate violated § 3622(b)(8).¹⁰ In the FY 2014 Annual Compliance Review (ACR) proceeding, GCA renewed this objection, adding arguments that the rate violated §§ 3622(b)(1) and (5).¹¹ In that docket, the Commission reviewed and dismissed each of these arguments, finding that “the price differential between Stamped and Metered Letters is an appropriate exercise of the Postal Service’s pricing flexibility” under § 3622. FY 2014 ACD at 68. In the FY 2016 ACR proceeding, GCA once again argued that the metered letter rate violated §§ 3622(b)(5) and (8), questioning the value of the rate to the Postal Service.¹² The Commission again rejected GCA’s arguments, explicitly finding that the metered letter rate “is consistent with the objectives” of § 3622 and that the metered letter rate is a permissible exercise of the Postal Service’s pricing flexibility.¹³ When the Postal Service proposed the current metered and stamped letter rates in Docket No. R2019-1, GCA contested the rates under § 3622(b)(8), contending

⁹ See Complaint at 30 (applying the § 403(c) standard of undue or unreasonable discrimination in the context of GCA’s § 3622 claim).

¹⁰ Docket No. R2013-10, Comments of the Greeting Card Association, October 16, 2013, at 3-8.

¹¹ Docket No. ACR2014, Initial Comments of the Greeting Card Association, February 2, 2015, at 4-9.

¹² Docket No. ACR2016, Initial Comments of the Greeting Card Association, February 2, 2017, at 1-4.

¹³ Docket No. ACR2016, Annual Compliance Determination Report, Fiscal Year 2016, March 28, 2017, at 75-76 (FY 2016 ACD).

that they were “priced arbitrarily” and, therefore, not just and reasonable.¹⁴ In Order No. 5285, the Commission analyzed the Postal Service’s proposed First-Class Mail prices, including the metered letter rate, under each of the 8 objectives and 14 factors provided in § 3622(b)-(c). The Commission determined that the metered letter rate was in accordance with § 3622(b)(1) because metered letters are less costly for the Postal Service to process and avoid stamp-related costs. Order No. 5285 at 37. The Commission found that the metered letter and stamped letter rates were permissible under § 3622(b)(4) because the statute allows “for pricing flexibility on a number of dimensions, by allowing the Postal Service to exercise broad discretion over the prices, the price structure, and the timing of price changes.” *Id.* at 41-42. The Commission concluded that the metered letter rate was in accordance with § 3622(b)(5) because it “is consistent with a strategy of incentivizing the entry of volume that would reduce the costs of the Postal Service and increase contribution to institutional costs, thereby improving the Postal Service’s financial position.” *Id.* at 44. The Commission determined that GCA’s argument that the metered and stamped letter rates are arbitrary and, therefore, not “just and reasonable,” as required under § 3622(b)(8) misapplied the statute because the just and reasonable standard “refers to a range of rates that are not excessive to mailers and do not threaten the financial integrity of the Postal Service” and that CGA “[did] not present justification for why the Commission should depart from precedent.” *Id.* at 49.

In summary, GCA’s § 3622 arguments have been addressed in numerous prior Commission proceedings. In each case, the Commission reviewed and rejected these contentions, finding that the metered letter rate is in accordance with the objectives for the system for regulating rates and classes for market dominant products laid out in §

¹⁴ Docket No. R2019-1, Comments of the Greeting Card Association, October 30, 2018, at 10.

3622.¹⁵ It is also important to note that evaluation of rates under § 3622 does not take any single rate in isolation but rather reviews the proposed rates as a whole. As the Commission noted in Order No. 5285, some aspects of § 3622(b) and (c) are in tension with, overlap, and require qualitative and quantitative tradeoffs. *Id.* at 24. Consistent with Commission precedent on these issues, GCA's arguments must again be denied for the reasons set out in those dockets and repeated herein.

Turning to GCA's § 403(c) claim, a brief discussion of workshare discounts, and their relationship to the metered letter rate, is merited. Workshare discounts "provide reduced prices for mail that is prepared or entered in a manner that avoids certain activities the Postal Service would otherwise have to perform."¹⁶ These discounts are based on "the estimated avoided costs that result from the mailer performing the activity instead of the Postal Service." FY 2018 ACD at 12.

Although GCA has clarified that it does not contend that the metered letter rate is a workshare discount,¹⁷ many of its arguments are focused on whether the metered letter rate is justified by differences in the Postal Service's costs.¹⁸ Notably, the only legal requirement for the Postal Service to directly cost justify its rates is for workshare discounts, which are reviewed under 39 U.S.C. § 3622(e). Under that section, the Postal Service is prohibited from offering workshare discounts that "exceed the cost that the Postal Service avoids as a result of workshare activity," outside of enumerated

¹⁵ GCA attempts to differentiate its current arguments under § 3622(b)(4) from prior ones, arguing that the metered letter rate has increased and may now exceed the difference in the Postal Service's costs. Complaint at 30-31. However, the Commission determined the current metered letter rate was in accordance with § 3622(b)(4) in Order No. 5285. Order No. 5285 at 42.

To the extent that GCA attempts to differentiate its current claims under § 3622 from its claims in prior dockets on the basis of change in the metered letter rate, the Commission determines that its rationales in those dockets continue to apply. In other words, the Commission finds that increases in the rate to its current level do not disturb its reasoning in those dockets.

¹⁶ See, e.g., Docket No. ACR2018, Annual Compliance Determination Report, Fiscal Year 2018, April 12, 2019, at 12 (FY 2018 ACD).

¹⁷ Greeting Card Association Answer to Pitney Bowes Motion to Dismiss, February 26, 2020, at 5 (GCA Response to Pitney Bowes).

¹⁸ See, e.g., Complaint at 9.

statutory exceptions. 39 U.S.C. § 3622(e)(2). To enforce § 3622(e), the Commission reviews the “passthroughs,” or percentage of the discount relative to avoided costs, of workshare discounts.

The Commission reviews proposed rates, such as the metered letter rate, using the preceding three subsections of § 3622 (b)-(d). These provide the objectives, factors, and requirements (*e.g.*, the price cap) for the system for regulating rates and classes for market dominant products. Among other relevant considerations, the Commission examines the Postal Service’s costs under these subsections but the Postal Service is not required to directly cost justify its rates like it must in the workshare discount context.¹⁹

To summarize, workshare discounts are the only rates required to be justified by differences in the Postal Service’s costs. The Commission has consistently declined to determine that a workshare discount exists for metered letters, and therefore, the metered letter rate is not subject to this requirement. However, the Postal Service’s costs are a relevant consideration under the § 403(c) analysis.

In order for GCA’s § 403(c) claim to succeed, it must demonstrate that the Postal Service has engaged in “undue or unreasonable” price discrimination. 39 U.S.C. § 403(c). In Order No. 718, the Commission adopted a three-part test for evaluating whether price discrimination rises to this level and, consequently, violates 39 U.S.C. § 403(c).²⁰ Under that test, a price discrimination complainant must establish that: (1) they “ha[ve] been offered less favorable rates or terms and conditions than one or more other mailers;” (2) they are “similarly situated to the other mailer or mailers who have been offered more favorable rates or terms and conditions of service;” and (3) “there is no rational or legitimate basis for the Postal Service to deny it the more favorable rates or terms and conditions offered to others.” Order No. 718 at 28. A complainant must establish all three prongs of this test to be successful.

¹⁹ 39 U.S.C. § 3622(b)(1), (c)(2), (c)(12).

²⁰ Docket No. C2009-1, Order on Complaint, April 20, 2011, at 28 (Order No. 718).

In the following sections, the Commission analyzes GCA's § 403(c) claim under this test. For the reasons explained below, the Commission determines that it may be possible for GCA to develop evidence during a proceeding that establishes prongs one and two of the test are met for illegal price discrimination, but GCA cannot establish the third prong because the Postal Service has demonstrated a rational or legitimate basis for its decision to offer the metered letter rate.

A. Relevant Information Concerning Whether Households are Offered Less Favorable Rates or Terms and Conditions than Businesses

The Postal Service's metered letter rates (including the rate for the first ounce and addition for each additional ounce) are lower and therefore more favorable than its stamped letter rates.²¹ The metered letter rates are, uniformly, 5-cents lower than the stamped rates, starting at 50 and 55 cents respectively for a one ounce letter. MCS § 1105.5.

However, both of these rates are generally available to all mailers with the same terms and conditions. Unlike the negotiated rates that the Postal Service offers through negotiated service agreements, the metered and stamped letter rates are available to any mailer with a postage meter or access to PC Postage.

Despite the general availability of the rates, GCA argues that the Postal Service effectively offers different rates to households and businesses because households generally do not mail volumes necessary to justify the costs associated with a postage meter. Complaint at 13-16. In GCA's view, this creates a *de facto* difference in the rates being offered to each group. *Id.* A *de facto* rate differential could establish that customers are being offered more or less favorable rates, despite the rates being generally available.

However, not all household mailers utilize the stamped rate and not all businesses utilize the metered rate. It is almost certain that some households mail in

²¹ Mail Classification Schedule (MCS) § 1105.5.

volumes that justify a meter or PC Postage access. It is not clear, nor does GCA proffer any explanation, as to what extent households and business map to these rate categories.

The Complaint attempts a rough analysis of the economics for household mailers to attempt to demonstrate that the metered letter rate is not economical for households. GCA has not made any showing, other than this rough projection, that households cannot access the metered rate. Furthermore, GCA disregards the relevance of PC Postage, which allows household mailers even less expensive access to the metered letter rate. GCA states that PC Postage “can be ignored” because “[t]he theoretical objection that household mail users can obtain the Metered Letter rate by adopting PC Postage in lieu of stamps fails in practice . . . because PC Postage is an insignificant part of the Single-Piece Letter mailstream.” Complaint at 16-17. GCA does not explain why the popularity of PC Postage has any bearing on whether it provides a less expensive rate for letters than stamps. The Commission considers the above and concludes that, while it is possible that GCA may be able to develop evidence that households are offered less favorable rates than businesses at a proceeding, it need not make a determination on this prong given its findings below.

B. Relevant Information Concerning Whether Household and Business Mailers Are Similarly Situated

GCA argues that household and business mailers are similarly situated because these mailers utilize the same service, First-Class letters. Complaint at 11-13. In GCA’s view, differences in the Postal Service’s mail processing costs for metered and stamped letters are not relevant because they are “not a feature which . . . mailers choose or reject in selecting a postal product.” *Id.* at 12 (footnote omitted). GCA points out that “[a]s letter mail products, they are otherwise indistinguishable....” *Id.* at 11.

The Postal Service rejects GCA’s position, arguing that “GCA rests solely on the fact that both types of mailers use the same service” and concluding that “[t]his fact

alone is insufficient to demonstrate that the two groups are similarly situated.”²² The Postal Service also alleges that “differences between the mailers identified by GCA are material for purposes of Section 403(c)” and “prove fatal” to GCA’s contention that households and businesses are similarly situated. USPS Motion to Dismiss at 8.

For purposes of evaluating whether mailers are similarly situated in § 403(c) complaints, the Commission considers “a comparison of the relevant characteristics of different mailers....” Order No. 718 at 45 (emphasis omitted). The Commission has acknowledged that “a determination of whether two mailers are similarly situated is best determined on a case-by-case basis.” *Id.* at 59. In conducting this inquiry, the use of the same or similar product is potentially persuasive but not dispositive. *Id.* at 49. Similarly, “differences in the overall volumes and densities” of mailers does not preclude a finding that they are similarly situated. *Id.* at 61. This evaluation is more extensive than the analogous “like service” test used by regulators in other industries.²³

In the instant docket, users of the metered and stamped letter rates receive identical service because they purchase the same product, First-Class letters. Mailpieces under these rates are subject to the same service standards;²⁴ size; shape and weight restrictions;²⁵ and content restrictions. The only difference in service provided is the postal payment indicia required.

However, household and business mailers use the mail stream for different purposes and have distinct market and demand characteristics. Whereas households use the mail stream for purposes such as personal correspondence, business

²² United States Postal Service’s Motion to Dismiss with Prejudice the Greeting Card Association Complaint, February 19, 2020, at 7-8 (USPS Motion to Dismiss).

²³ See, e.g., *Am. Message Centers v. F.C.C.*, 50 F.3d 35, 40 (D.C. Cir. 1995) (describing the price discrimination test in the telecommunications context “[w]e have described the inquiry into whether a carrier is discriminating in violation of section 202(a) as involving three steps: (1) whether the services are ‘like’; (2) if so, whether the carrier is offering the service to other customers at a ‘different’ price or under ‘different’ conditions than those offered to the petitioner; and (3) if such a difference exists, whether that difference is unreasonable.”)

²⁴ See 39 C.F.R. § 121.1.

²⁵ Domestic Mail Manual § 101.1.0.

purchases, and bill payments, businesses use the mail stream “as inputs in the process of making and marketing their products.”²⁶ The Postal Service has found that “[t]he nature and sender of metered letters differ from the remainder of single-piece First Class Mail letters.” R2013-10 Notice at 20. The Postal Service states that “[s]enders of metered letters are generally small to medium-sized businesses...” and that the metered letter rate is intended to target that segment of the market. *Id.*

This is consistent with the Commission’s determination that metered letters, specifically, share market characteristics with Presort First-Class Mail. Order No. 1320 at 11. In that order, the Commission recognized that stamped and metered letters have distinct market and demand characteristics in selecting metered mail as the category that serves the same market as Presort First-Class Mail.

The Commission concludes that it is unclear whether GCA can establish that household and business mailers are similarly situated. If the Commission limited its review to whether the two categories of mailers received like service, it is very likely that they are similarly situated because the only differences are mail preparation-related. However, under a more comprehensive comparison of the relevant characteristics of the mailers the outcome is less certain. Complicating this inquiry, GCA alleges price discrimination between groups of mailers instead of two individual customers. Households and businesses are segments of the market for mail services that are differentiated with market and demand characteristics that the Postal Service uses to determine which services and prices to provide each group. The Commission declines to conduct this potentially extensive analysis at this time because it is unnecessary given its ultimate finding below.

²⁶ See, e.g., Office of the Inspector General, United States Postal Service, Analysis of Postal Price Elasticities, May 1, 2013, Appendix at 10 (available at: https://www.uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-13-008_0.pdf).

C. Relevant Information Concerning Whether there is a Rational or Legitimate Basis for the Metered Letter Rate

The Postal Service offers three bases for its decision to price the metered letter rate.²⁷ First, it encourages small businesses to adopt meters, slowing diversion. *Id.* at 9. Second, it increases efficiency of postage payments by eliminating the need for stamp production, distribution, and cancellation. *Id.* at 10. Third, it promotes consistent usage of the mail, which also slows electronic diversion. *Id.* These rationale are consistent with the reasons provided for the metered letter rate when it was established.²⁸

The Commission reviews each of these bases separately under the totality of the circumstances to determine whether they are rational or legitimate. The Commission also considers the Postal Service's rationale, generally, using relevant factors established through its precedent. These include: differences in the Postal Service's costs and selectivity of the price differential.²⁹

1. The Commission accepts the Postal Service's rationale that the metered rate slows diversion.

The Commission accepts the Postal Service's rationale that the metered letter rate can help slow the electronic diversion of mail. Diversion of mail to the internet began shortly after its introduction and widespread use by the public. In 1995 the Postal Service moved 181 billion pieces of mail, while the internet transmitted 100 billion emails and text messages; by 2010, the Postal Service total had dropped to 172 billion

²⁷ USPS Motion to Dismiss at 9-10.

²⁸ R2013-10 Notice at 20.

²⁹ Order No. 718 at 79-90; Docket No. R2009-2, Order Reviewing Postal Service Market Dominant Price Adjustments, March 16, 2009, at 69-72 (Order No. 191) (finding that the Postal Service had not justified providing separate rates for mailing agents and mail owners because, *inter alia*, the pricing decision was narrowly targeted).

pieces, while the internet transmitted 216 *trillion* emails and text messages.³⁰ The Postal Service's Market Dominant mail volumes have continued to decline since Fiscal Year (FY) 2010, as shown in Table 1 below. Market Dominant mail volumes have declined by 19.2 percent over that time, a drop of over 32 billion pieces.

³⁰ Washington Post Editorial Board, "Trumps Postal Service Audit is Actually a Welcome Chance for Reform," April 17, 2018 (available at: https://www.washingtonpost.com/opinions/trumps-postal-service-audit-is-actually-a-welcome-chance-for-reform/2018/04/17/b45f1b10-4276-11e8-8569-26fda6b404c7_story.html) (citing S. Hrg. 114-579, Laying Out the Reality of the United States Postal Service, Statement by James E. Millstein Chief Executive Officer Millstein & Co. before the Committee on Homeland Security and Governmental Affairs United States Senate, January 21, 2016); see also U.S. Postal Service Office of the Inspector General, Risk Analysis Research Center, Report Number: RARC-WP-11-00, The Postal Service Role in the Digital Age Part 1: Facts and Trends, February 24, 2011; Docket No. R2006-1, Direct Testimony of Peter Bernstein on Behalf of the United States Postal Service, May 3, 2006.

Table 1
Volume Trend in Market Dominant Products,
FY 2010 – FY 2019

Fiscal Year	Total Market Dominant Volume (000)	Year- to-Year Percent Change
2010	169,471,235	
2011	166,460,877	-1.8%
2012	157,302,392	-5.5%
2013	155,280,499	-1.3%
2014	152,135,884	-2.0%
2015	150,197,938	-1.3%
2016	149,845,530	-0.2%
2017	144,387,065	-3.6%
2018	140,743,574	-2.5%
2019	136,897,527	-2.7%
2010-2019	(32,573,708)	-19.2%

Source: Revenue, Pieces & Weight (RPW) by Classes of Mail and Special Services for Quarters 1-4 YTD, FY 2019, Compared with Corresponding Period of FY 2018, November 14, 2019; Revenue, Pieces & Weight (RPW) by Classes of Mail and Special Services for Quarters 1-4 YTD, FY 2017, Compared with Corresponding Period of FY 2016, November 16, 2017; Revenue, Pieces & Weight by Classes of Mail - Market Dominant Products - and Special Services for Quarters 1, 2, 3 and 4, and Annual Summary for YTD Fiscal Year 2015 Compared with Corresponding Period of Fiscal Year 2014, November 23, 2015; Mailing Services (Market Dominant Products) Revenue, Pieces & Weight by Classes of Mail and Special Services for Q1, Q2, Q3, Q4 and Summary FY2013, November 27, 2013; Revenue, Pieces and Weight (RPW) Report FY 2011 Summary (Public), November 25, 2011.

GCA argues that the metered letter rate has not meaningfully slowed the diversion of metered letters relative to stamped letters, which would undermine this rationale.³¹ To support its claim, GCA provides a chart showing the declines in stamped and metered letters over the past 5 years. Complaint at 23. GCA concludes that its chart shows negative trends lines for stamped and metered letters that are “fairly close to parallel.” *Id.*

³¹ GCA frames the question as whether the metered rate has succeeded in increasing volumes. Given the overall declines in mail volumes, relatively lower decreases in categories of mail volume is the appropriate consideration.

Other parties are highly critical of GCA's analysis. The Postal Service argues that "GCA fails to recognize that one would expect to find declining volumes year-over-year in a market characterized by declining demand" and that "GCA has not pled factual allegations stating that metered volumes would not have declined faster absent the separate, lower Metered Letter rate." USPS Motion to Dismiss at 12. Pitney Bowes states that GCA's analysis "invites the reader to eyeball the chart" and "performed no analysis at all to isolate the effect of the discount on volume and, thus, its analysis is meaningless."³²

A closer analysis of volume data reveals that there have been substantially different rates in volume decline for metered and stamped letters. Table 2 demonstrates that metered letters have declined by 15.4 percent while stamped letters have declined by 20.9 percent from FY 2015 to FY 2019.

³² Pitney Bowes Inc. Motion to Dismiss the Complaint of the Greeting Card Association, February 19, 2020, at 10.

Table 2
Metered Mail and Stamped Mail Volume Trends,
FY 2015 – FY 2019

Fiscal Year	Metered Letters (000)	Pct. Change from Prior FY Year	Stamped Letters (000)	Pct. Change from Prior FY Year
2015	7,704,766		11,603,137	
2016	7,567,624	-1.8%	10,925,517	-5.8%
2017	7,118,904	-5.9%	10,273,843	-6.0%
2018	6,879,440	-3.4%	9,636,051	-6.2%
2019	6,519,975	-5.2%	9,172,696	-4.8%
2015 - 2019		-15.4%		-20.9%

Source: Docket No. ACR2015, Library Reference USPS-FY15-4, December 29, 2015, folder "FY15-4.MD.BDs.Rev.3.25," Excel file "FY15 FCM BDs_Rev_3-25-16.xlsx," tab "A-1 Single-Piece Letters;" Docket No. ACR2016, Library Reference USPS-FY16-4, December 29, 2016, folder "FY16.4.MD.BDs," Excel file "FY 2016 FCM.xlsx," tab "A-1 Single-Piece Letters;" Docket No. ACR2017, Library Reference USPS-FY17-4, December 29, 2017, folder "BD FY 2017 MKT Dominant," sub folder "First Class Mail," Excel file "FY 2017 FCM.xlsx," tab A-1 Single-Piece Letters; Docket No. ACR2018, Library Reference USPS-FY18-4, December 28, 2018, folder "USPS.FY18.4.MD BD Files," subfolder "Other MD BDs," Excel file "FCMBDs_ACR2018.xlsx," tab A-1 Single-Piece Letters; Docket No. ACR2019, Library Reference USPS-FY19-4 FY19, December 27, 2019, folder "FY19_4_MD_BD_Files," subfolder "Other MD BDs," Excel file "FY19 FCM.xlsx," tab A-1 Single-Piece Letters.

Additionally, the Postal Service has provided elasticity estimates for metered and stamped letters.³³ The Postal Service estimates own-price elasticities for stamped and metered letters as -0.131 and -0.202, respectively. The Postal Service concludes that "[t]hese results are suggestive that Metered Letters are more price-sensitive than Stamped Letters." Response to CHIR No. 1, question 1.

GCA argues that these "disparate" elasticities have "not previously been seen in public and has not been reviewed critically."³⁴ However, GCA does not provide any reason for skepticism of the Postal Service's estimates.

The demand elasticities for stamped and metered letters provided by the Postal Service appear to have been estimated using the Postal Service's Econometric

³³ Responses of the United States Postal Service to Chairman's Information Request No. 1, April 3, 2020, question 1 (Response to CHIR No. 1).

³⁴ Response of the Greeting Card Association to Postal Service Answers to Chairman's Information Request No. 1, April 10, 2020, at 2 (GCA Response to CHIR No. 1).

Demand Equations for Market Dominant products. The post-estimation statistics of these estimations are comparable to those obtained for other categories of First-Class single-piece mail in the Demand Equations for Market Dominant products. The Commission's review of these estimates corroborates the Postal Service's conclusion that mailers of metered letters are more price-sensitive than stamp-letter mailers.

The Commission finds that the Postal Service's rationale for using the metered rate to slow the electronic diversion of mail is reasonable and legitimate. The relative volume declines and elasticities for metered and stamped letters indicate that they are susceptible to diversion at different rates. The electronic diversion of mail represents one of the most serious business threats to the Postal Service. For this reason, the Commission affords the Postal Service appropriate deference in the business decisions it makes to address this obstacle. The Postal Service's rationale is reasonable because the metered letter rate appears to slow diversion.

2. The Commission accepts the Postal Service's rationale that the metered letter rate provides a more efficient system of payment.

The Commission accepts the Postal Service's rationale that a metered-based payment system increases efficiency by eliminating costs associated with stamp production, distribution, and cancellation. Meter-based payments avoid significant stamp production and distribution costs.

The Postal Service states that stamp production costs in FY 2019 were almost \$35 million.³⁵ The Postal Service cites another \$5.5 million in stamp distribution costs.³⁶

GCA contests the Postal Service's estimates of these costs.³⁷ GCA notes that the Postal Service's estimates "presumably include the precanceled stamps used predominantly or entirely by bulk mailers, including especially users of USPS Marketing

³⁵ Response to CHIR No. 1, question 7.

³⁶ Response to CHIR No. 1, question 6.

³⁷ GCA Response to CHIR No. 1 at 4-6.

Mail.” *Id.* at 4. GCA also suggests that some of these costs may be associated with philatelic, or stamp collecting, programs and not used for mailing purposes. *Id.* at 4-5. GCA also argues that there are certain costs specific to metered mail that are not accounted for, such as the bookkeeping involved in managing the metered accounts. *Id.* at 6.

The Commission estimates that there are approximately 0.19 cents in stamp production and distribution costs per stamped piece that are not incurred by metered mail. This calculation is presented in Table 3 below. The exclusion of pre-cancelled and philatelic stamp costs from the numerator and the inclusion of all categories of stamped mail in the denominator address GCA’s criticisms about the potential for overestimating these costs. GCA may be correct that there are some costs involved in the managing of metered accounts, but there is no evidence to suggest that such costs would be on the scale of the cost of producing and distributing stamps.

Table 3
Estimated Stamps Cost Savings from Metered Letter Mail

Paper Stock Cost ¹	\$	19,776,215
Distribution Cost	\$	5,501,637
Total Stamped pieces (000)		13,623,822
Unit Cost - cents per piece		0.19

¹ not including cost of pre-cancelled stamps and philatelic stamps.

Source: **Stamp Costs**: Docket No. ACR2019, Library Reference USPS-FY19-5, December 27, 2019, Excel fil “FY19.5 RealTB.Public.Redacted.xlsx,” tabs “seg 16,” “seg 18,” and “seg 20;” **Stamped Pieces**: Response to CHIR No. 1, question 5.

Meter-based payments also avoid significant window service costs, resulting in lower costs for the Postal Service. Table 4 calculates the windows service costs incurred by Single-Piece Stamped Letters and Single-Piece Metered letters. According to the Postal Service, stamped letters incur 95.1 percent of the window service costs for Single-Piece letters, with metered letters incurring the remaining 4.9 percent of those

costs. This distribution results in a unit cost difference of 2.48 cents per piece including piggybacks.³⁸

Table 4
Window Service Cost Differentials

Category	FY19 Costs	FY19 Piggyback Factor	FY 19 Piggybacked Costs	Unit Cost Cents per Piece
First-Class Single-Piece Letters				
<u>Stamped Letters</u>				
Direct Labor	\$ 34,671	1.3938	\$ 48,324	
Stamp Sales	\$ 156,141	1.3938	\$ 217,629	
Stamped Envelopes	\$ 4,346	1.3938	\$ 6,057	
Total Stamped	\$ 195,158		\$ 272,011	2.72
<u>Metered Letters</u>	\$ 10,122	1.3938	\$ 14,108	0.24
Total	\$ 205,280		\$ 286,119	
Stamped-Meter Difference				2.48

Source: Response to CHIR No. 1, question No. 8.

The Commission's estimates indicate that metered letters are significantly less costly than stamped letters.³⁹ The Commission determines that these significant cost differences indicate that the Postal Service's rationale that the metered letter rate provides a more efficient system of payment is rational and legitimate.

3. The Commission accepts the Postal Service's rationale that the metered letter rate promotes consistent usage of the mail.

The Commission accepts the Postal Service's rationale that a metered letter rate promotes consistent use of the mail by encouraging the adoption of postage meters or PC postage. Postage meters and the accounts that allow access to PC Postage

³⁸ "Piggybacks" are indirect costs associated with the direct cost component or cost segments.

³⁹ To the extent that GCA argues that these stamp cost estimates may be over-inclusive, the Commission notes that more conservative estimates of these costs still represent significant cost differences compared to metered letters.

provide more convenient methods of payment to mailers who would otherwise have to separately purchase stamps (and for letters weighing over one ounce, stamps of varying denominations). This increased convenience promotes the Postal Service's products, encouraging engagement with the Postal Service, and promoting usage of the mail stream. Mailers can also use these avenues to pay for other Postal Service products, creating cross-selling opportunities for the Postal Service.

The popularity of the metered letter rate indicates that mailers value this convenience. As Table 5 demonstrates, the number of metered accounts grew by over 114 percent from FY 2014 to FY 2019. This indicates that mailers value the efficiency provided by postage meters and PC Postage.

Table 5
Metered Mail Accounts,
FY 2015 – FY2019

Fiscal Year	No. of Meter Accounts	Pct. Growth over Prior FY
2015	9,905,745	
2016	13,865,223	40.0%
2017	16,899,185	21.9%
2018	18,780,755	11.1%
2019	21,236,099	13.1%
2015 - 2019		114.4%

Source: CHIR No. 1, question 2.

The Commission accepts the Postal Service's rationale that the postage meters and PC Postage promote more consistent usage of the mail. They increase the likelihood that mailers will continue to engage with the Postal Service and utilize its products and services. The growth in metered letter accounts, even as the metered letter and other First-Class Mail volumes decline, suggests that users find value in postage meters and PC Postage and utilize these options for other postal products.

4. The Postal Service's rationale for the metered letter rate is reasonable.

As explained above, the Commission reviews the Postal Service's rationale for the metered letter rate under the totality of the circumstances. In this section, the Commission examines several general factors that support the reasonableness of the Postal Service's pricing, including: differences in the Postal Service's costs and the selectivity of the price differential.

The Commission finds that a comparison of the relatively small difference between the metered and stamped letter rates and the cost differential for processing and delivering those mailpieces supports the Postal Service's decision to provide the metered letter rate. Although the Postal Service is under no legal requirement to directly cost justify its rates, the Commission has previously considered the degree to which the Postal Service's costs support its decision to offer different rates as a non-dispositive factor. Order No. 718 at 79-90; Order No. 191 at 70-72. In doing so, the Commission evaluates the most relevant cost differences and does not attempt to capture every possible cost difference with absolute precision.

The Postal Service incurs significantly lower mail processing costs for metered letters compared to stamped letters. The Commission's estimated mail processing cost differential between Single-Piece Stamped Letters and Single-Piece Metered Letters is 3.21 cents per piece. This calculation is illustrated in Table 6:

Table 6
Mail Processing Cost Differential

Product	Volume	Unit Cost	Total Cost
	(000)	Cents per Piece	(\$000)
Single-Piece Stamped Letters	10,001,370	16.84	\$1,683,860.80
Metered Letters	<u>5,952,564</u>	<u>13.63</u>	<u>\$811,334.50</u>
Total First-Class Single-Piece Letters	15,953,934	15.64	\$2,495,195.30
Processing Unit Cost Difference		3.21	

Source: CHIR No.1, question 3.

The Commission estimates that the total cost differences, including mail processing, window service, stamp production and distribution, and delivery costs together sum to 4.64 cents per piece. These costs are summarized in Table 7 below.

Table 7
Summary of Cost Differentials Between
Metered and Stamped Letters

Cost Type	Cost Differential - Cents per Piece
Mail Processing	3.21
Delivery	-1.24
Stamp Production & Distribution	0.19
Window Service	2.48
Total	4.64

Source: Table 6, *supra*; Response to CHIR No. 1, question 4; Table 3, *supra*; Table 4, *supra*.

The 5-cent differential between the metered and stamped rates is 0.36 cents more than the 4.64-cent cost difference. This relatively small difference supports the Postal Service decision to set the metered letter rate 5 cents lower than the stamped

letter rate. As explained above, the Postal Service is under no legal requirement to cost justify its rates. However, the fact that the rate differential closely aligned with the cost differential in this case supports the Postal Service's decision to provide the metered letter rate.

The Commission also finds that the differential between the metered and stamped letter rates has a low degree of selectivity. The rate is not very selective between households and mailers, for the reasons explained in section B. The requirements for the rate are based on economics driven by volume and do not appear tailored to differentiate between households and businesses.

The Commission finds that these factors support the Postal Service's rationale for the metered letter rate. The Commission determines that the fact that the differential between the metered and stamped letter rates is relatively close to estimated differences in the Postal Service's costs for those products, the low magnitude of the differential between the stamped and metered letter rates, and the low level of selectivity in how the metered and stamped letter rates are applied between households and businesses, support the Postal Service's decision to offer the metered letter rate as rational and legitimate.

IV. CONCLUSION

The Commission finds that the Complaint fails to establish its claims under §§ 3622 and 403(c). GCA's claims under § 3622 have been addressed in numerous prior Commission dockets, and the Commission addresses them again in this Order.⁴⁰ The Commission consistently has determined that these claims lack merit and that the metered letter rate is in accordance with the objectives in § 3622(b). The Complaint does not raise any novel arguments to those considered in prior dockets and the Commission analyzed the metered letter rate for compliance with each provision of § 3622(b) and (c) in Docket No. R2019-1. The Commission determines GCA's claim

⁴⁰ See FY 2014 ACD; FY 2016 ACD; Order No. 5285.

under § 403(c) fails under the test for undue or unreasonable price discrimination. Although GCA argues that households are offered a less favorable rate or terms and conditions and that they are similarly situated to businesses, GCA cannot show that the Postal Service lacked a rational or legitimate basis for the metered letter rate. The Postal Service has provided several reasonable rationales for the metered letter rate that the Commission accepts. The Commission also finds that several general factors support the Postal Service's rationale as legitimate. Accordingly, the Commission dismisses the Complaint with prejudice.

V. ORDERING PARAGRAPHS

It is ordered:

The United States Postal Service's Motion to Dismiss with Prejudice the Greeting Card Association Complaint, filed February 19, 2020, is granted.

By the Commission.

Erica A. Barker
Secretary